

Message Text

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ACTION XMB-07

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 9331

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E. O. 11652 N/ A

TAGS: EFIN, ENGR, NI

SUBJECT: GUADALUPE LPG PROJECT

REF: STATE 73291, LAGOS 2902

SUMMARY: GUADALUPE REPRESENTATIVE PLANS RESUME DISCUSSION WITH EXIMBANK NEXT MONTH AND WILL PRESENT FMG POSITION ON FINANCIAL GUARANTEES AND OTHER ASPECTS OF PROPOSED LPG PLANT IN PORT HARCOURT. NIGERIAN OFFICIALS HAVE INDICATED IN PAST THEY ARE PREPARED EXTEND NECESSARY GUARANTEES ON PROJECTS WITH LARGE FMG PARTICIPATION AND WILL PAY IN THEIR FULL SHARE OF EQUITY CONTRIBUTION. FMG CONSIDERING ESTABLISHING INDEPENDENT GAS GATHERING FACILITY. ALTHOUGH GUADALUPE PROTECT STILL HANDICAPPED BY ABSENCE OF ASSURED UTILIZATION FOR EFFLUENT GAS AFTER EXTRACTION LPG, SOME FMG OFFICIALS SEEM INTENT PROCEED WITH LPG PLANT. END SUMMARY.

1. WE AGREE THAT IT IS ALTOGETHER REASONABLE FOR EXIMBANK TO ASK THAT THE FMG AS MAJORITY PARTNER IN GAS PROJECT BE PREPARED TO MAKE KNOWN CONDITION ITS PARTICIPATING IN VENTURE IN ANY TALKS WITH EXIM. OLIPHANT DURING RECENT VISIT TO LAGOS TOLD US HE UNDERSTANDS AND AGREES THAT EXIM NEEDS SUCH INFO BEFORE IT CAN PROCEED WITH LOAN DECISION. OLIPHANT NOW AWARE THAT, IN ORDER MOVE PROJECT
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FORWARD, HE WILL IN EFFECT HAVE TO CONVEY TO EXIMBANK FMG POSITION ON GUARANTEES AND OTHER ISSUES.

2. OLIPHANT SAID HE PLANNED TO APPROACH EXIM AGAIN BEFORE

HIS EXPECTED RETURN TO NIGERIA IN EARLY MAY AND IS NOW PREPARED TO RESPOND TO EXIM QUEIRIES ON PROJECT. WE OFFER FOLLOWING TENTATIVE COMMENTS ON FOUR POINTS RAISED IN PARA TWO STATE 73291 WHICH EXIM MAY WISH TO EXPLORE FURTHER WITH OLIPHANT.

A. EMBASSY NOT AWARE OF MAGNITUDE EQUITY ENVISAGED FOR PROJECT BUT FMG HAS MADE CLEAR IT PREPARED PAY IN ITS FULL 60 PERCENT SHARE. BOTH PARTNERS WILL PRESUMABLY ATTEMPT TO HOLD EQUITY TO MINIMUM REQUIRED TO SUPPORT DEFT. FINAL DECISION ON EXTENT EQUITY WILL PROBABLY NOT BE DETERMINED UNTIL REQUIREMENTS OF LENDERS HAVE BEEN ESTABLISHED.;

B. SENIOR OFFICIALS OF MINISTRY MINES AND POWER, MINISTRY OF FINANCE AND CENTRAL BANK HAVE ASSURED EMBASSY ON VARIOUS OCCASIONS THAT IN REGARD TO LARGE LNG, LPG AND PETROCHEMICAL PROJECTS WITH FMG PARTICIPATION, FMG IS PREPARED GUARANTEE REPAYMENT OF EXIMBANK LOANS AND GUARANTEE COMMITMENTS TO EXTEND OF THIS PARTICIPATION. THEY HAVE EVEN SAID THAT AS MAJORITY PARTNER FMG MIGHT GUARANTEE ALL DEBT AND THE TAKE BACK- UP GUARANTEE FROM PRIVATE PARTNER FOR LATTER' S PRO- RATA SHARE. WE BELIEVE THESE GUARANTEES WILL BE UNCONDITINAL BUT ARE NOT CERTAIN TO WHAT EXTEND FMG PREPARED GIVE SUPPLEMENTARY GUARANTEES REGARDING NON- INTERFERENCE IN PRODUCTION OR DEGREE TO EXTERNAL SEGRETATION OF SALES PROCEEDS IN ORDER ASSURE THAT LENDERS WILL HAVE FIRST CALL ON FOREIGN EXCHANGE PROCEEDS OF EXPORTS.

C. ALTHOUGH FINAL DECISION APPARENTLY NOT YET MADE, MINISTRY MINES AND POWER OFFICIALS HAVE INDICATED THAT THEY ARE CONSIDERING ESTABLISHMENT OF SEPARATE FMG CORPORATION TO BE RESPONSIBLE FOR CONSTRUCTION AND OPERATION OF NATURAL GAS GATHERING SYSTEM FOR ALL NIGERIA. HIS PROPOSED ENTITY WOULD SELL NATURAL GAS (BEGINNING WITH FLARE GAS ONLY) TO ALL CONSUMERS, INCLUDING POSSIBLE LNG AND LPG PLANTS, ELECTRIC POWER GENERATING STATIONS, AND INDUSTRIAL END USERS. GUADALUPE LIMITED OFFICIAL USE
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REP TOLD US WORLD PRICE OF LPG NOW SUFFICIENTLY HIGH TO PERMIT LPG PLANT PAY CONTEMPLATED PRICE FOR NATURAL GAS EVEN THOUGH ROUGHLY 80 PERCENT MIGHT HAVE TO BE SUBSEQUENTLY FLARED. OLIPHANT SAID HE WILL TRY OBTAIN COMMITMENT THAT PLANT NEED PURCHASE ENTIRE GAS STREAM ONLY FOR TWO YEARS AFTER START UP. BY THAT TIME IF THERE STILL NO MARKET FOR EFFLUENT GAS IN LNG FACILITY OR INDUSTRIAL USE, COSUIOOX GAS SHOULD BE REDUCED TO PLANT TO REFLECT ACTUALCONSUMPTION FOR LPG.

D. WHILE GUADALUPE HAS NOT BEEN DESIGNATED AS

OPERATOR OR JOINT VENTURE NOR DOES IT HAVE SECURITY OF MANAGEMENT CONTRACT, IT HAS APPARENTLY OBTAINED FMG AGREEMENT THAT KEY MANAGEMENT POSITIONS IN JOINT ENTERPRISE WILL BE HELD BY EXPATRIATE PERSONNEL. IT ALSO BELIEVES THAT IT WILL HAVE SUFFICIENT AUTHORITY TO ASSURE PROPER OPERATION OF PROJECT AND MARKETING OF PRODUCT. THIS AND OTHER UNDERTAKINGS BY FMG WOULD BE FURTHER EXPLORED WITH OLIPHANT.

3. WE BELIEVE TALKS WITH OLIPHANT WILL GIVE EXIM GOOD OPPORTUNITY EXPLORE FMG INTENTIONS IN REGARD FINANCIAL AND OTHER SUPPORT OF LARGE LPG, LNG AND PETROCHEMICAL PROJECTS IN WHICH FMG INTENDS TO BE MAJORITY PARTNER. IT WILL ALSO GIVE EXIM AN OCCASION TO CONVEY ITS REQUIREMENTS BACK TO FMG IN REGARD TO LPG PLANT WITH WHOSE CONSTRUCTION WE FEEL FMG DETERMINED TO PROCEED. FYI: POSSIBLE THAT NIGERIANS MAY LOOK FOR OTHER FOREIGN PARTNER, HOWEVER, FOR SOME NIGERIAN OFFICIALS AGAINST ARRANGEMENT WITH GUADALUPE ARE PRESSING FOR TERMINATION OF CONTRACT BECAUSE OF LACK OF PROGRESS TO DATE. THIS OPPOSED BY OTHER OFFICIALS WHO STILL FEEL INDEBTED TO GUADALUPE PARENT FIRM - CRUTCHER RESOURCES - FOR ITS SUPPORT DURING CIVIL WAR AND WHO REALIZE THAT MUCH OF DELAY RESULTS FROM FMG INDECISION ON GAS COLLECTION, SELECTION OF ENGINEERING CONSULTANTS, SITE LOCATION AND OTHER MATTERS. BASIC TO ALL OTHER CONSIDERATIONS IS THAT PLANT IS DEPENDENT UPON ASSURED SUPPLY OF LARGE VOLUME OF GAS (ABOUT 450 MILLION CUBIC FEET PER DAY) OF WHICH ONLY SMALL PORTION TO BE EXTRACTED AND MARKETING BY PLANT. GUADALUPE HAS NOT WISHED TO CONSTRUCT PLANT IN ADVANCE OF ASSURANCE THAT GAS LIMITED OFFICIAL USE
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GATHERING SYSTEM WOULD BE COMPLETED AT SAME TIME AS PLANT. NIGERIAN PLANS TO BUILD AND OPERATE GAS GATHERING SYSTEM STILL APPEAR INDEFINITE AND WILL ALMOST CERTAINLY BE AFFECTED BY FINAL DECISION RE LNG PROJECT (S). FOR EXAMPLE, GUADALUPE REP SAID THAT FMG HAS NOT EVEN RESPONDED TO PROPOSAL BY ENGLISH CONSULTANT KONGFIRM, IMEG, TO DESIGN NECESSARY GAS GATHERING SYSTEM. RESOLUTION OF BASIC PROBLEMS COULD PERMIT LGP PROJECT TO MOVE FORWARD RAPIDLY EITHER WITH GUADALUPE OR OTHER FIRMS (E. G. MUNDOGAS OF BERMUDA OR CITIES SERVICES) WHO HAVE EXPRESSED INTEREST IN LPG PROJECT END FYI.
REINHARDT

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